



Committee On Finance

Max Baucus, Ranking Member

NEWS RELEASE

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BAUCUS EXAMINES HEALTH CARE OPTIONS FOR MEDICARE

Senate Finance Committee Hearing Looks at Private Competition in Health Care

(WASHINGTON, D.C.) To continue his efforts to move Medicare reform and prescription drug coverage forward in Congress, Senator Max Baucus today joined Chairman Charles Grassley in holding a hearing examining the competitive bidding structures currently used by large purchasers of health care.

“Today’s hearing is especially important because the Medicare reform proposal the President has released is based on the use of competing preferred provider organizations (PPOs) to deliver health care services” Baucus said. “Before we consider moving seniors into private plans, we must have solid proof that private plan competition will keep costs down. From what I’ve seen so far, there’s no solid proof that privatization is any more cost effective than the current traditional fee-for-service program.”

During the hearing Baucus emphasized his concerns that the private PPO model, similar to what the Administration has proposed, could actually increase Medicare costs.

“My sense is that with higher administrative costs, profits, and risk load, combined with an inability to contract with preferred providers in remote areas, PPOs would actually be more expensive than traditional fee-for-service Medicare,” Baucus said at today’s hearing. “And as I understand it, Congressional Budget Office (CBO) happens to agree with this assessment. They also believe that getting regional PPOs to participate in Medicare will be very costly. At any rate, they certainly won’t improve Medicare solvency.”

Previously, Baucus has outlined his goals for Medicare reform, which include:

- Enact a prescription drug benefit that provides the same voluntary benefit for all Medicare beneficiaries.
- Strengthen and improve the traditional fee-for-service program by building in stronger incentives to coordinate chronic care to reward providers that deliver high-quality care.

- Streamline Medicare administration policies to provide both seniors and providers with better service. This would mirror bipartisan legislation Baucus pushed last year in Congress to improve Medicare's customer relations with health care providers.
- Ensure the long-term solvency of Medicare.

--- Statement follows ---

**Statement of Senator Max Baucus
Hearing on Competitive Purchasing of Health Care
April 3, 2003**

Thank you, Mr. Chairman. I appreciate the opportunity to explore the issue of purchasing health care services in a competitive environment.

This is a "big-think" kind of hearing. We have the opportunity to consider what sort of competitive bidding structures large purchasers of health care currently use. And this is important, because the President has recently put forth a Medicare reform proposal – or at least the outline of a plan – that emphasizes choice and competition among private health plans.

We aren't here to pick at the administration's proposal. Rather, we're here to think about how a competitive model might – or might not – work for Medicare.

As I see it, there are many lessons here – both for the current Medicare+Choice program as well as for traditional fee-for-service Medicare.

In particular, some of the questions I hope our witnesses will help answer include:

- Is it necessary to have losers in a bidding process, like the TRICARE system? Or is competition possible when essentially all bidders are accepted, like the FEHB program.
- How can quality be incorporated in a competitive purchasing system, as GM has done?
- What are the challenges of bringing in PPOs to serve ALL parts of the country?
- Is a PPO model any less expensive or more efficient in a rural area than traditional Medicare?

My sense is that with higher administrative costs, profits, and risk load, combined with an inability to contract with preferred providers in remote areas, PPOs would actually be more expensive than traditional fee-for-service Medicare. And as I understand it, CBO happens to agree with this assessment. They also believe that getting regional PPOs to participate in Medicare will be very costly. At any rate, they certainly won't improve Medicare solvency. Which leads me to my last questions.

- Are these competitive systems truly transferrable to Medicare?
- And, perhaps more importantly, are there lessons from these systems that we can apply to traditional Medicare – not just to private plans?

It's important to keep in mind that almost 90 percent of seniors are enrolled in traditional Medicare, and I don't see that ratio changing any time soon.

Montana doesn't have any coordinated care plans. We have a private fee-for-service plan in Medicare, but only 146 enrollees have signed up. And that is not an exaggeration.

As we try to make improvements to the system – modernizations, reforms, or whatever you want to call these changes – we must think carefully about whether a competitive model truly can flourish in all areas of the country.